

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

301 State House
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FISCAL IMPACT STATEMENT

LS 7107

BILL NUMBER: SB 333

DATE PREPARED: Jan 25, 2002

BILL AMENDED: Jan 24, 2002

SUBJECT: Dockside Gaming and Pull Tabs.

FISCAL ANALYST: Jim Landers

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FUNDS AFFECTED: **GENERAL**
 DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: (Amended) *Dockside Gaming:* The bill authorizes riverboats to conduct dockside gaming while still requiring the riverboats to be self-propelled and to have a valid certificate of inspection from the United States Coast Guard. The bill repeals the riverboat cruising requirement and other statutes related to mandatory cruising. The bill requires the Riverboat Admission Tax to be paid with respect to the number of persons on board the riverboat at the time a passenger count is recorded. The bill requires the passenger counts to be conducted each day one hour after the riverboat begins admitting patrons and then every two hours thereafter.

Pari-mutuel Pull Tabs: The bill authorizes the sale of pari-mutuel pull tabs at Hoosier Park and Indianapolis Downs.

Riverboat Ownership: The bill removes the prohibition on a riverboat owner from owning more than a 10% interest in another riverboat and permits a person to own up to a 100% interest in not more than two riverboat licenses. The bill also provides that a person may not have an ownership interest in more than two riverboat owner's licenses. It specifies that a person is considered to have an ownership interest in a riverboat owner's license if the interest is owned directly or indirectly by the person or by an entity controlled by the person.

Other Provisions: The bill requires riverboat admission tickets, if issued, to display the toll-free telephone number to obtain information on drug, alcohol, and gambling addictions.

Effective Date: July 1, 2002.

Explanation of State Expenditures: (Revised) *Pari-mutuel Pull Tabs:* The bill authorizes the sale of pari-mutuel pull tabs at Hoosier Park and Indianapolis Downs (to be located in Shelby County). Under the bill, the Indiana Horse Racing Commission would be responsible for oversight of pari-mutuel pull tab operations at the two horse racing tracks. The bill limits the number of electronic pull tab terminals or devices that may

be installed at the race tracks to 700 per track. The bill prohibits pari-mutuel pull tab sales in a county where a riverboat casino is docked, and prohibits any pull tab sales until both race tracks are in operation. (Indianapolis Downs must open by December 6, 2002, as a condition of receiving a track permit from the Horse Racing Commission.)

The Indiana Horse Racing Commission would incur additional administrative expenses relating to the licensing and regulation of pari-mutuel pull tab operations. The bill allows the Commission to impose an administrative fee to cover these costs. The bill also allows the Commission to contract with the Indiana Gaming Commission for the provision of services necessary to administer pari-mutuel pull tab games and specifies that the Gaming Commission provide input and assistance to the Horse Racing Commission in adopting rules to implement the Pari-mutuel Pull Tabs law.

Explanation of State Revenues: (Revised) *Dockside Gaming:* The bill provides that a riverboat owner may commence dockside gaming operations allowing for continuous boarding of riverboat patrons. The change to dockside gaming is expected to increase both wagering and admissions on riverboats that operate in such a manner. As a result, dockside gaming is expected to increase revenue from both the Riverboat Wagering Tax and the Riverboat Admission Tax. While the bill would still allow riverboats to cruise, the fiscal impacts outlined below assume that all riverboats would choose to commence dockside operations. Estimates pertaining to particular riverboats and communities will be made available upon request. Since the dockside authorization would be effective July 1, 2002, the impact of the bill would begin in FY 2003.

If all of the existing riverboats were to begin dockside gaming operations, revenue from the Riverboat Wagering Tax could potentially increase as estimated in the table below: The state share of the increase, as determined by statute, is equal to 75%. The state share of the Wagering Tax is deposited in the Lottery and Gaming Surplus Account within the Build Indiana Fund.

Estimated Increase in Wagering Tax Revenue and Distribution

	FY 2003	FY 2004
Total Increase	111.0 M	114.9 M
State Share (75%)	83.3 M	86.2 M
Local Share (25%)	27.8 M	28.7 M

Likewise, if all existing riverboats begin dockside gaming operations, revenue from the Riverboat Admission Tax could potentially increase as estimated in the table below. The distributions specified in the table, as determined by statute, are made to the state and to local units from each \$3 Admission Tax.

Estimated Increase in Admission Tax Revenue and Distribution of Each \$3 Tax

	FY 2003	FY 2004
Total Increase	55.4 M - 57.0 M	56.1 M - 58.7 M
State Fair Comm. (\$0.15)	2.78 M - 2.85 M	2.8 M - 2.9 M
Div. of Mental Health (\$0.10)	1.85 M - 1.9 M	1.87 M - 1.96 M
Horse Racing Comm. (\$0.65)	12.0 M - 12.4 M	12.1 M - 12.7 M
Total State Share	16.6 M - 17.1 M	16.8 M - 17.6 M
Local Units (\$2.10)	38.8 M - 39.9 M	39.2 M - 41.1 M

Pari-mutuel Pull Tabs: Revenue from the existing \$0.20 Pari-mutuel Admissions Tax could potentially increase if pari-mutuel pull tab sales serve to increase paid attendance to live horse racing at Hoosier Park. The precise impact on Admission Tax revenue, however, is indeterminable. This tax is imposed only on paid admissions to a horse racing track and, presently, admission is charged at Hoosier Park for live racing. Under current law, 50% of the Admission Tax revenue is distributed to the state General Fund. In addition, an increase in attendance at Hoosier Park due to pull tab sales also could lead to an increase in wagering on live horse racing. This could potentially increase revenue to the state from the existing Pari-mutuel Wagering Tax. The extent of this impact also is currently indeterminable. The Wagering Tax is imposed at a rate of 2.5% of the total amount wagered on live races. The first \$150,000 of revenue from the Pari-mutuel Wagering Tax is distributed to the Veterinary School Research Account, and the remainder of the revenue goes to the Lottery and Gaming Surplus Account within the Build Indiana Fund.

Background - Dockside Gaming: The estimated impact of dockside gaming in Indiana is based on the observed impact of dockside gaming in Illinois. Dockside gaming with continuous boarding of riverboat patrons began on Illinois riverboats as of June 26, 1999. Monthly totals for adjusted gross receipts and admissions were analyzed for a period of 67 months beginning with January 1996 and concluding with August 2001. The analysis controlled for the underlying monthly trend in both variables, for changes in the number and size of riverboat casinos during the period observed, for general economic conditions, and for seasonal differences. The results of this analysis indicate that during the months since dockside gaming began (July 1999 to August 2001) in Illinois, adjusted gross receipts have on average been about 30% higher than during the months prior to dockside gaming (January 1996 to June 1999). Likewise, the analysis indicated that riverboat admissions have on average been about 45% higher during the months since dockside gaming began.

The Wagering Tax impact is derived using the State Budget Agency's FY 2003 forecast as of January 22, 2001, for total Wagering Tax revenue equal to \$370.16 M. The FY 2004 estimate assumes 3.5% annual growth in wagering based on recent trends. The Admission Tax impact is based on an FY 2003 estimate derived using total riverboat admissions during the 12-month period from November 2000 to October 2001 (40.4 M), and assuming growth rates ranging from 1.1% to 3% annually. These growth rates are based on recent trends in admissions relative to casino space and in overall riverboat admissions. Thus, FY 2003 riverboat admissions are estimated to total approximately 41.1 M to 42.2 M. Total admissions are used to derive these estimates as the bill creates a system of counting passengers every two hours that would tend to replicate the existing system of counting riverboat admissions. Under the existing system, admissions are

the sum of a turnstile count and a multiple excursion count. The turnstile count is the number of persons entering the riverboat, and the multiple excursion count is the number of persons remaining on the riverboat for an additional excursion (generally two hours in length).

It is important to note that the estimates assume the conditions that have existed in Illinois since dockside gaming commenced will be replicated in Indiana, if and when dockside gaming commences. This assumption may be problematic in particular since the competitive environment for Indiana riverboats may not be similar to that which has existed for Illinois riverboats. At the time dockside gaming began in Illinois, the primary competitors of Illinois riverboats were riverboats located in: (1) Indiana, where dockside gaming is not permitted; (2) Missouri, where continuous boarding of riverboat passengers was at the time not permitted and where a loss limit of \$500 per 2-hour gaming session remains in place; and (3) Iowa, where dockside gaming on riverboats was only allowed during the late fall and winter months. If dockside gaming were to be implemented in Indiana, the impact on riverboat wagering and admissions may not reach the level achieved in Illinois since Indiana riverboats would be competing, to a great extent, with riverboats in Illinois that already conduct dockside gaming. The presence of land-based casinos operating in Detroit, Michigan, also may serve to dampen the impact of a change to dockside gaming in Indiana. As a result, the estimates based on the Illinois experience may overestimate the impact that dockside gaming will ultimately have on the Riverboat Admission Tax and the Riverboat Wagering Tax in Indiana.

Explanation of Local Expenditures:

Explanation of Local Revenues: (Revised) *Dockside Gaming*: Under current statute, 25% of Wagering Tax revenue is distributed to local units. As a result of dockside gaming, the Riverboat Wagering Tax to local units could potentially increase by an estimated \$27.8 M in FY 2003 and \$28.7 M in FY 2004 (See table under *Explanation of State Revenues* for state and local distribution amounts.) The distribution of the local share of the Wagering Tax depends upon the location of the riverboat from which the tax is collected. For Lake Michigan riverboats, and for riverboats on the Ohio River that are docked in the largest city in the county, the local share of Wagering Tax revenue is distributed to the city designated as the home dock. For riverboats on the Ohio River that are not docked in the largest city in the county, the local share of Wagering Tax revenue is distributed to the county in which the riverboat is docked.

If all existing riverboats commence dockside gaming operations, revenue to local units from the Riverboat Admission Tax could potentially increase by an estimated \$38.8 M to \$39.9 M in FY 2003 and \$39.2 M to \$41.1 M in FY 2004. (See table under *Explanation of State Revenues* for state and local distribution amounts.) The local share of each \$3 Admission Tax, as determined by statute, depends on the location of the riverboat from which the tax is collected. For riverboats located in counties contiguous to either Lake Michigan or the Ohio River, the following local distributions are made from each \$3 tax:

- \$1.00 to the city in which the riverboat is docked;*
- \$1.00 to the county in which the riverboat is docked; and
- \$0.10 to the county convention and visitor bureau or promotion fund.

*In counties along the Ohio River in which the riverboat is not docked in the largest city in the county, this \$1.00 is also distributed to the county.

Pari-mutuel Pull Tabs: If attendance at Hoosier Park for live racing increases due to sales of pari-mutuel pull tabs, revenue to local units from the \$0.20 Pari-mutuel Admissions Tax could increase. The extent of this impact is indeterminable. Under current statute, 50% of admission tax revenue is distributed in equal shares

to the city and county where the horse racing facility is located.

State Agencies Affected: Indiana Gaming Commission, Indiana Horse Racing Commission, Division of Mental Health, Department of Natural Resources.

Local Agencies Affected: Local units receiving revenue from the Riverboat Wagering Tax, the Riverboat Admission Tax, or the Pari-mutuel Admissions Tax.

Information Sources: Indiana Gaming Commission, *2000 Annual Report to the Governor*, February 28, 2001. Indiana Gaming Commission, *Monthly Summary of Wagering and Admission Tax*, Various Months. Illinois Gaming Board, *Monthly Riverboat Revenue Reports* (Jan. 1996 to Aug. 2001); Illinois Gaming Board, *1999 Annual Report*; Illinois Economic and Fiscal Commission, *Wagering in Illinois: 2000 Update*, September 2000; State Budget Agency, *Lottery and Gaming Revenue Forecast*, January 22, 2001; Bob Lain, State Budget Agency, (317) 232-5610; Indiana Horse Racing Commission, *2000 Annual Report to the Governor*, May 1, 2001; *2000 Annual Report*, Indiana Horse Racing Commission, May 1, 2001; *Indiana Handbook of Taxes and Appropriations, FY 2001*.